

# U.S. TRADE *IN PERSPECTIVE*

U.S. Department of Commerce, International Trade Administration, Trade Development

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## U.S. Trade Deficit Worsens as Global Economic Woes Persist

**Key Developments:** *In November, the U.S. goods and services trade deficit worsened after improving for the previous two months. Weakening demand abroad has made 1998 on the whole a difficult year for U.S. exporters. By contrast, the U.S. economy in November broke the record for the longest peacetime expansion. The strength of the U.S. economy is responsible for the rising level of imports.*

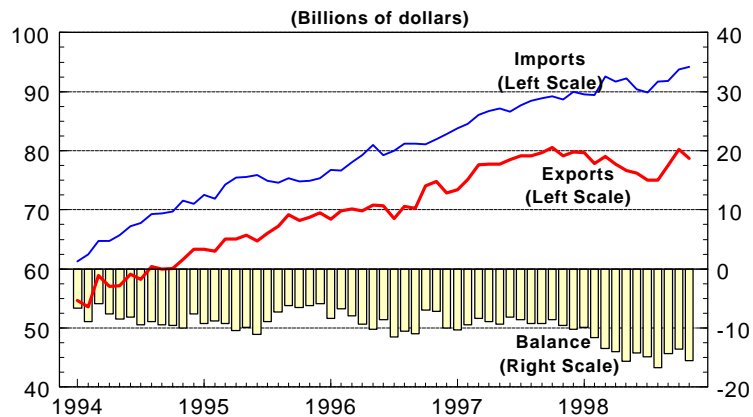
The problems in Asia continue, though there has been improvement in trade with South Korea. Export markets in Europe have been picking up, while U.S. export growth in the Western Hemisphere has slackened, especially in South America.

Though prices of U.S. agricultural commodities have declined since early 1996, wheat and corn prices rose for a second month in November. The price of crude oil fell to \$10.81 a barrel in November, hovering near the yearly low set in August.

**1998 Trends:** U.S. exports of goods and services declined in November and fell during most of 1998. To date, total exports have decreased 0.5 percent from levels a year earlier. Imports rose in November and throughout most of 1998, ebbing in June and July when the pace of the economy slowed and crude oil prices fell to record lows. The U.S. trade deficit rose to \$15.5 billion in November, compared with \$13.6 billion in October.

- November exports were \$78.7 billion, \$1.6 billion less than October's (revised figure). November imports rose \$0.3 billion to \$94.1 billion. Year to date, imports have risen 5 percent over the same period a year earlier.
- The trade deficit thus far this year has worsened to an annual rate of \$168 billion, compared with \$109 billion for the same period in 1997. (For all of 1997, the trade deficit was \$110.2 billion, averaging \$9.2 billion per month.)

### U.S. INTERNATIONAL TRADE

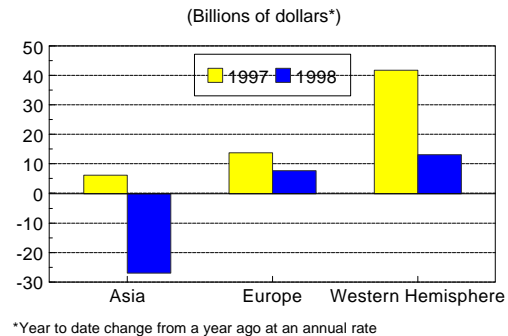


## ***Regional View: Exports Up to Mexico, Europe, China; Down to Asia and South America***

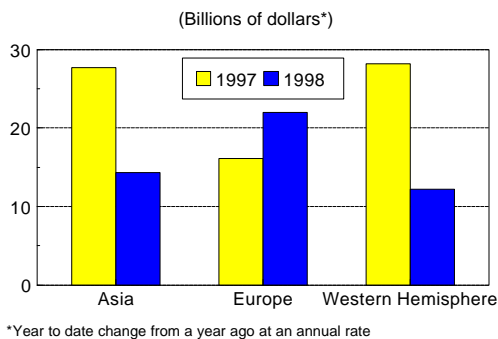
*Through November, exports to Asia fell 13 percent from their 1997 level. However, exports to China grew 11 percent. The value of imports from Asia overall has increased only moderately, but imports from China are up 15 percent. U.S. export growth to the Western Hemisphere started strong in 1998 but slowed due to slackening demand in South America (though exports to Mexico remain strong). U.S. trade with Europe is picking up, but imports still outpace exports, widening the deficit.*

Through November, exports to both the Western Hemisphere and Europe grew 5 percent over the same period in 1997; but in the last three months, exports to the Western Hemisphere have declined while exports to Europe have risen 7 percent. Exports to Asia continue to decline, dropping 13 percent through November compared to the same period a year earlier.

### **Dollar Change in Exports by Region**



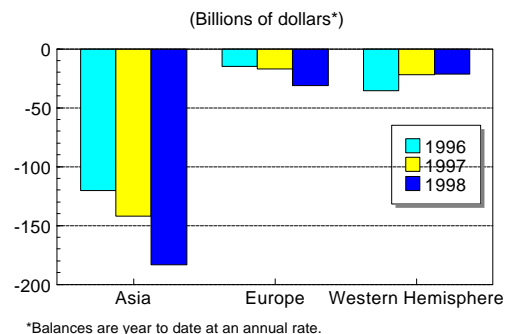
### **Dollar Change in Imports by Region**



Through November, import growth has been concentrated in Europe, rising 12 percent from a year ago. Import growth from the Western Hemisphere has slowed to 4 percent, primarily because of lower world oil prices. (Imports of manufactured goods from the Western Hemisphere grew 11 percent from a year ago.) To date, imports from Asia rose 4 percent, compared to 8 percent in the first eleven months of 1997.

The rise in the merchandise trade deficit is primarily a result of the deterioration in the U.S. trade balance with Asia. In the first eleven months of 1998, the trade deficit with Asia totaled \$183 billion (annual rate), compared with \$142 billion a year earlier. Slowing export growth in the Western Hemisphere has eroded U.S. trade gains in that region. Despite substantially lower oil prices, the U.S. trade deficit with the Western Hemisphere improved only slightly thus far this year—to \$21.2 billion from \$22.0 billion a year earlier. Through November, the trade deficit with Europe worsened to \$31.2 billion from \$17.0 billion last year.

### **Trade Balance by Region**

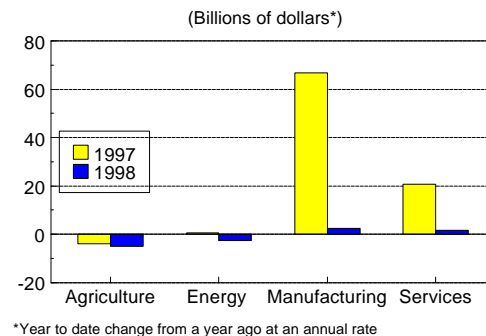


## Sectoral View: Aircraft Exports Drive U.S. Manufactures Growth

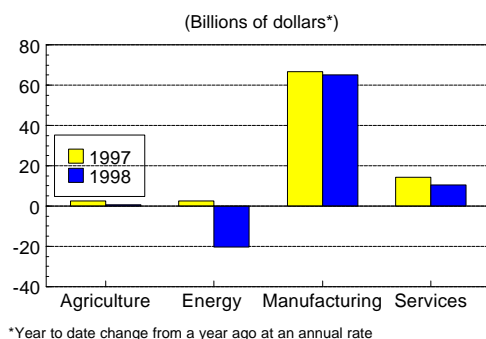
*Through November, exports of manufactured goods hovered just above levels a year earlier. However, if U.S.-made aircraft are excluded, manufactures exports would be 2 percent lower than in the same period last year. Overall, U.S. exporters were hit hard in 1998 by falling prices and shrinking global demand. Oil prices remain very low, with prices falling again in November, improving the U.S. deficit in energy products substantially over its 1997 balance.*

Year to date, U.S. exports of manufactured goods and services have grown less than a percent. One exception, however, is aircraft and parts exports, which are up 29 percent from a year earlier. Agricultural commodity prices rose slightly in November but remain at relatively low levels, reducing the value of those exports. Through November, agricultural exports have fallen 9 percent from the same period a year earlier.

### Dollar Change in Exports by Sector



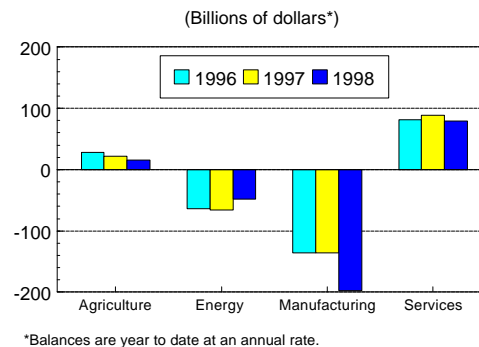
### Dollar Change in Imports by Sector



In November, prices for crude oil imports dropped again, remaining close to August's record low for 1998. Cheap oil cut U.S. energy imports in the first eleven months of this year by 26 percent from a year earlier. Through November, imports of manufactured goods rose 9 percent, while services imports increased 6 percent from a year ago.

Most of the deterioration in the U.S. trade deficit stems from trade in manufactured goods. Year to date, the manufacturing deficit rose to \$198 billion (annual rate) from \$136 billion a year ago. The surpluses in agriculture and services have continued to erode. In the first eleven months, the agriculture surplus deteriorated to \$15.8 billion from \$21.6 billion the previous year. The services surplus retreated to \$79.5 billion from \$88.3 billion a year ago. However, in energy products, the U.S. deficit improved to \$48.5 billion from \$66.1 billion during the same period in 1997.

### Trade Balance by Sector



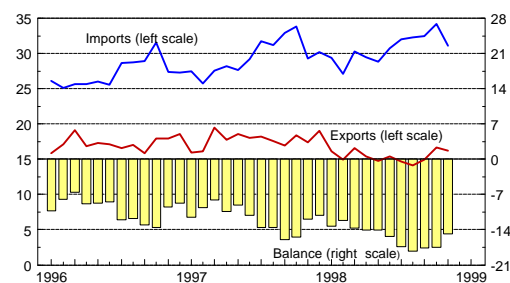
## ***The Asia Factor: Trade Deficit With Asia Continues to Narrow***

*The monthly U.S. trade deficit with Asia narrowed in November, though it remained one-third higher than in November 1997. U.S. exports fell, but imports from Asia fell faster, bringing about a \$2.6 billion improvement in the monthly trade deficit. The share of total U.S. exports to Japan and the Asian Five (Indonesia, Malaysia, South Korea, Thailand and the Philippines) has been declining since late 1997 while remaining virtually constant with China. In real terms, the U.S. dollar recently has weakened against the Korean won, Indonesian rupiah, and Thai baht.*

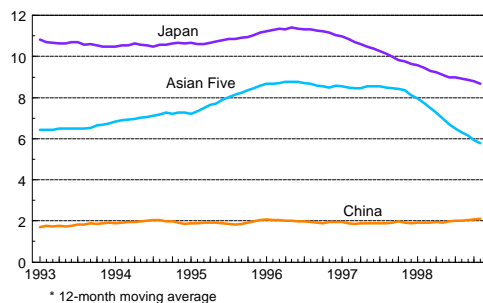
Year to date, the 1998 U.S. merchandise trade deficit with Asia was \$168.1 billion. Of this total, \$58.2 billion was with Japan (or 35 percent of the overall deficit with Asia); \$53 billion (or 32 percent) was with China; and \$36.3 billion (or 22 percent) was with the Asian Five.

The U.S. merchandise trade deficit with Asia worsened by 29 percent in the first eleven months of 1998 compared to 1997.

**U.S. Merchandise Trade with Asia**  
(Billions of dollars)



**Share of U.S. Exports to Japan, China, and the Asian Five**  
(Percent of total merchandise exports\*)



The share of U.S. exports to China (using a 12-month moving average) has remained stable. The continued drop in our overall share of exports to Japan and the Asian Five has been primarily due to the prolonged weakness in their economies.

In recent months, the U.S. dollar has weakened against the won, baht, and rupiah in real terms. Compared to the pre-crisis level, the real value of

the U.S. dollar is still 22 percent higher against the won, 27 percent higher against the baht, and 38 percent higher against the rupiah. This weakness was largely due to a decline in the nominal values of won and baht per U.S. dollar. A plunge in the nominal exchange rate (rupiah/dollar) coupled with high inflation in Indonesia, lowered the real exchange value of the dollar. Thus, these countries' ability to purchase U.S. goods has been increasing.

**Real Effective Exchange Rates**  
(Foreign currency unit per U.S. dollar)

